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C O N F I D E N T I A L SECTION 01 OF 03 CONAKRY 000167

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [ASEC](#) [GV](#)
SUBJECT: GLOBAL ECONOMIC CRISIS MEETS COUP D'ETAT -
GUINEA'S ECONOMY IN TROUBLE

REF: CONAKRY 0163

Classified By: POL/ECON CHIEF SHANNON CAZEAU FOR REASON 1.4 B AND D

¶1. (C) SUMMARY. Local business owners are deeply concerned about the state of the Guinean economy. With overall commercial activity down by at least 50%, vendors are beginning to feel the painful pinch of what some are calling "one of the worst slow-downs" in years. Imports are down and commercial stock is piling up. Whether vendors are talking about appliances, building materials, or basic foodstuffs, the story is the same. Most blame the global economic crisis, but many also link the worst of the situation to the country's overall political instability in the aftermath of the December coup. Current economic trends, both global and local, suggest that the Guinean Government is facing a major budget crisis. At the same time, the inexperienced military junta is ill equipped, and likely significantly under-resourced, to effectively formulate a policy response to the country's growing recession. Career technocrats seem to be simply hoping that things will either get better on their own or that the international community will ultimately bail them out when things come to a head. END SUMMARY.

¶2. (U) Over the past few weeks, Pol/Econ Chief met with more than a dozen local commercial contacts to discuss the state of the Guinean economy. These contacts included the owner of one of the city's major grocery stores catering to expats and upper middle class Guineans, a wholesale furniture importer, the country's leading flour importer, an electronics importer, and a number of vendors at Conakry's Medina market. Without exception, all agreed that Guinea's economy has slowed down significantly, particularly over the past three months. Some blamed the world economic crisis while others pointed to political instability, and still others commented that it was some combination of the two. The 1st Vice Governor of the Central Bank privately acknowledged that the country is in a recession (reftel).

COMMERCIAL ACTIVITY DOWN 50%

¶3. (SBU) Several vendors told Pol/Econ Chief that their total sales figures were down by more than 50%. The owner of a grocery store specializing in imported products, said that 2008, for which annual sales were down 60%, was the worst year the business had seen during its twenty years in Guinea. An electronics importer said that business started to slow down in September, but then took a dive in December, becoming even worse after the first of the year. "We are down more than 50%...it started when people started saying that Conte would die...and then we had the coup and things really slowed down," he said. The country's biggest importer of flour

estimated that total economic activity in the country had declined by about 50% over the same period the previous year.

¶4. (SBU) Despite the never-ending bustle of activity in Conakry's largest open-air market, vendors in Medina Market, who ultimately buy their stock from the importers, voiced similar concerns. One businesswoman was sitting in a stall empty of customers, surrounded by boxes and boxes of plumbing supplies. She claimed that her sales were down by more than 80%, which she attributed directly to the coup and the resulting political uncertainty. "My main customers are the builders and they are not buying," she said. A Lebanese vendor barely had room to maneuver between stacked boxes of electronics and appliances. "Nothing is moving...I haven't been able to sell anything since the coup," he said.

¶5. (SBU) Another Medina vendor selling woven carpets imported from China and Thailand, which are commonly used in Guinea as prayer mats and cheap flooring, said that sales had been declining for about six months, but that the situation had worsened considerably after January. "I'm used to temporary slow-downs, but this the worst I've seen in many years," he said. The vendor added that he used to place an order with his suppliers at least once a month for four or five containers worth of stock. "I haven't placed an order in seven months," he said. The same story was echoed by vendors of textiles, building supplies, and other common consumer goods.

GUINEANS ARE TIGHTENING THEIR BELTS

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¶6. (SBU) According to vendors, food sales have been just as dramatically affected by the slow down. A Medina vendor of basic foodstuffs, including rice, tomato sauce and cooking oil, said that although customers are still buying, they have reduced their consumption. "Instead of coming every other day, my regular customers now only come once a week," he said. Another Medina vendor commented that many business owners had expected sales to rebound once prices started to drop. "A 50 kilo bag of rice has dropped by at least 60,000 GnF (\$13) over the past few months, but sales are still way down," she said.

¶7. (SBU) The flour importer's story was slightly different. He said that flour consumption had tripled in Guinea over the last seven years as rice prices steadily increased. "People are eating lots of bread now," he said, adding "it fills you up and you can make a meal out of it...you don't have to cook a sauce to go with it like you do rice." The importer said that his sales have been steady, but only because he supplies the bakeries. "My competitors, the ones trying to sell sacks of flour directly to consumers...they are having a really hard time...they are not selling anything," he said. He commented that these competitors have begun to divert their regular orders (of imported flour) to alternate destinations such as Angola.

IMPORTS CONTINUE TO DECLINE

¶8. (SBU) Several of the businesspeople interviewed said that they had either stopped placing orders with their suppliers, whether locally based or abroad, or that they had significantly reduced their orders. The flour importer stated that the flow of container traffic into the port has noticeably declined over the last few months. "It is only going to get worse because what is coming in now is what was ordered months ago...a few months from now, there will be even less coming in," he said.

¶9. (SBU) When asked to identify factors that might be contributing to the recession, most vendors mentioned the global economic crisis as the primary cause. However, several added that overall political uncertainty in Guinea after the December coup has worsened the situation. The flour vendor commented that the CNDD's frequent proclamations about "economic predators" and anti-corruption initiatives are making entrepreneurs nervous. "It's not clear who they are targeting" he said.

¶10. (SBU) A major furniture importer said that the coup has "significantly dampened" Guinea's economy. He explained that most of his clients purchase merchandise in Guinea in order to take advantage of exchange rates and the lack of administrative barriers, and then transport goods into neighboring countries, such as Mali, Liberia, and Sierra Leone, to resell them. "Because of the coup, people are scared to come here and do business," he said.

¶11. (SBU) An electronics importer commented that investors are reluctant to invest their money in Guinea right now. "There is a certain sense of fear that is specific to the coup," he said. Vendors in Medina Market made similar statements although one young entrepreneur fervently lavished praise on Moussa Dadis Camara and the CNDD, saying that Dadis is working hard to make everything better. "Yes, sales are down, but the political situation has improved immensely," he said.

COMMENT

¶12. (SBU) Like many other developing nations where the economy is driven by extractive industries, there is no question that Guinea is feeling the ripple effects of the global economic crisis. The political instability associated with the December coup may very well be making things worse. Meanwhile, more than half of Guineans are believed to be

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living on less than \$1 a day. Poverty is endemic. Economic frustration linked to political dissatisfaction has been at the root of much of the civil unrest in Guinea over the past few years. Citizens are ill prepared to weather a protracted recession.

¶13. (C) If Guinean consumers and entrepreneurs are already feeling the pinch, the Guinean Government is likely starting to feel it as well. Weak accounting practices, corruption, and an overall lack of transparency make it difficult to precisely dissect the government's revenue streams. However, it is generally accepted that a significant portion of the government's budget, possibly as much as 80%, is derived from the mining sector and in particular, bauxite. Customs duties on imported goods probably generate a significant amount of revenue as well. Given that global aluminum prices have plummeted by nearly 50% over the past year while imports are rapidly declining, it is likely that the Guinean Government is facing a major decline in its overall revenue. The previous government was already desperate for HIPC debt relief before the economic crisis struck. The fact that HIPC relief is now likely to be delayed indefinitely due to the installation of the military junta, suggests that the budgetary situation is dire.

¶14. (C) Although government revenues are likely declining, some might argue that Dadis' assertion of control over the national budget may have temporarily staunched the free flow of funds typical of the Conte era. Although there is less money coming in, it is possible that there is also less money going out. This in turn may mean that corrupt government officials have less disposable income available to inject

into the marketplace. Embassy has also heard widespread speculation, including in local and international press, that Dadis' anti-narcotics crackdown is partially responsible for the economic slow-down, since there is supposedly less drug money in circulation. However, when asked about the narcotics link, commercial contacts said that they thought the slow-down was more deeply connected to the global economic crisis and that any linkage to the government's anti-narcotics effort is insignificant.

¶15. (C) In any case, the country's current leadership is ill equipped to address the looming crisis. The President of the CNDD is a military captain who has quickly moved to consolidate his control over the country's financial assets, thereby marginalizing the Minister of Finance and the Prime Minister while effectively shutting down government functions (reftel). The Minister of Finance is another military captain experienced only in basic military budgeting. Conversations with career technocrats suggest that the Guinean Government senses the trouble ahead, but is hopeful that things will either get better on their own or that the international community will ultimately bail them out when things come to a head. There is no clear economic plan in place. END COMMENT.
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